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IN THE
Supreme Court of the United States

October Term, 1967
No. 1303

LEAR, INCORPORATED,

Petitioner,

vs.

JOHN S. ADKINS,

Respondent.

VOLUME I.
BRIEF FOR RESPONDENT IN OPPOSITION.
(Appendix in Volume II)

Introduction.

This case is a suit by John S. Adkins ("Adkins"), an inventor, against Lear, Incorporated ("Lear"), a major corporation, which involves one patent and one license agreement only. After a lengthy jury trial, the jury unanimously found the patent to be both valid and infringed and rendered its verdict for Adkins. After intermediate proceedings in the trial court and the first appellate court which will be explained hereinafter, the California Supreme Court reinstated the judgment on the jury verdict. The determinative issues in the California Supreme Court were the construction of the license agreement (which both parties agreed was not ambiguous), the enforcement of the doctrine of licensee estoppel, and the application of the Federal rules relating to infringement to the uncontradicted facts. A large portion of Lear's petition is no more than an effort to persuade this Court to interpret the license agreement contrary to the construction placed upon it by the

California Supreme Court, and to induce this Court to apply the Federal rules relating to infringement on the issues of alleged new matter and file wrapper estoppel differently than did the California Supreme Court. The remaining part of Lear's petition is simply an attempt to avoid the settled doctrine of licensee estoppel by (a) incorrectly asserting that it is inconsistent with the patent laws; (b) raising a non-existent restraint of trade argument; (c) raising an issue of State law relating to consideration for contracts; (d) raising a purely hypothetical issue concerning the difference, if any, between a license under a patent application and a license under an issued patent; and (e) raising a clearly erroneous argument pertaining to so-called antedating of the patent monopoly to the claims of the application. As will be shown in detail hereinafter, these questions were not properly or timely raised below, and none has any substantive merit or is of sufficient importance to justify review by this Court. However, since these questions which are raised by Lear are all directed to its belated assertion that during the existence of the license agreement it should not have been estoppel to question the validity of Adkins' patent, it is worth noting at the outset that had it been necessary for the California Supreme Court to decide the issue of validity on the merits (the jury having unanimously found the patent to be valid), it would have unquestionably held that Adkins' patent is valid.

In this regard, the California Supreme Court, after considering the prior art patents (A-37-38)¹ and con-

¹References herein to the record, the briefs of the parties and the opinions below will be made as follows: "A", "B", "C" and "D" followed by a page number will refer to Lear's Appendix; "E" through "N" followed by a page number will refer to Adkins' Appendix to this Brief in Opposition; "C. T." followed by a page number will refer to the Clerk's Transcript; "R. T." followed by a page number will refer to the Reporter's Transcript; "Ex." followed by a number will refer to exhibits admitted in evidence.

cluding on uncontradicted evidence, as did the jury, that Lear was not building the five gyros in issue according to the prior art patents, considered either singly or in combination and together with the application of ordinary mechanical skill (A-38), stated that "Adkins nevertheless makes a significant step forward in the innovation and utilization of the cooperative relationship [of the elements of his combination patent]" (A-38). Thus, the above quoted statement decides in Adkins' favor the only question of law on the issue of validity after the jury has found the patent to be valid, *Graham v. John Deere Co.* (1966), 383 U.S. 1, *United States v. Adams* (1966), 383 U.S. 39.

Opinions Below.

The judgment for Adkins entered on the unanimous verdict of the jury is unreported. The trial court's opinion, granting Lear a judgment notwithstanding the verdict and a new trial in the alternative, is unofficially reported at 143 USPQ 53. The opinion of the California District Court of Appeal is set forth at 244 A.C.A. 100, 151 USPQ 119, and is modified at 244 A.C.A. 563. The opinion of the California Supreme Court is reported at 67 A.C. 911, 156 USPQ 285.

Jurisdiction.

Adkins admits that Lear asserts a "right" under Federal statutes within the meaning of 28 USC §1257, subd. (3). However, Adkins denies that this Court has jurisdiction under either Art. I, Sec. 8, Cl. 8, of the Constitution or under 35 USC §§101, 102(a), (b), 103, 115, 132, 154 or 282, or under 15 USC §1,

or under 28 USC §1498,² in that Lear has completely failed to properly or timely raise any substantial Federal question under any of said statutes, as explained in greater detail hereinafter.

Questions Presented.

In order to invoke the jurisdiction of this Court, the question presented must be a substantial Federal question, Rule 19-1(a), *Beck v. Washington* (1962), 369 U.S. 541, 551-555, and a question which has not been decided by prior United States Supreme Court decisions, *Palmer Oil Corp. v. Amerada Petroleum* (1952), 343 U.S. 390, *Consolidated Turnpike v. Norfolk etc. Ry. Co.* (1913), 228 U.S. 569, *Equitable Life Assurance Society v. Brown* (1902), 187 U.S. 308. It cannot be a question presented for the first time to the highest State court on petition for rehearing, *Hanson v. Denckla* (1958), 357 U.S. 235, 244, *Radio Station WOW v. Johnson* (1945), 326 U.S. 120, 128, unless the highest State court entertains the petition and decides the question,³ *Radio Station WOW v. Johnson*, *supra*, or unless the decision was a surprise which could not have been anticipated, *Herndon v. Georgia* (1935), 295 U.S. 441. *A fortiori*, a question first presented to this Court in a petition for a writ of certiorari comes too late for consideration, *Hanson v.*

²Adkins does not believe that Lear seriously contends that his sole remedy is to sue the United States in the Court of Claims under 28 USC §1498, since that statute expressly excludes products manufactured for the Government under a license from the patent owner. Thus, Adkins will not consider this to be one of the questions presented.

³"It is the settled rule of [the California Supreme] Court that points made for the first time on petition for rehearing will not be considered." *A. F. Estabrook Co. v. Industrial Acc. Com.* (1918), 177 Cal. 767.

Denckla, supra. The question presented to this Court under a Federal statute must not differ from the question presented under that statute in the lower courts, *Hanson v. Denckla, supra*. The question must be squarely raised as a Federal question and not just mentioned in passing in the lower courts, *Beck v. Washington, supra*, and must not be one which was abandoned in the lower courts, *Beck v. Washington, supra*. Finally, the question presented must be a Federal question and not a question which relates only to the construction of or consideration for a license agreement which are questions of State and not Federal law, *Dale Tile Manufacturing Co. v. Hyatt* (1888), 125 U.S. 46, *Scott v. Platt* (1943), 171 Ore. 379, 137 P. 2d 975, *St. Paul Plow Works v. Starling* (1891), 140 U.S. 184.

Although Lear asserts that there are only five questions presented, Lear in fact presents seven different questions, some of which raise subsidiary questions. All questions require restating for proper consideration because in stating the questions, Lear has either combined anti-trust and patent questions with purely State questions (Lear's questions 1 and 2), or stated the same question twice (questions 3 and 4), or stated the question so broadly as to be completely vague (question 5).

Separately and fully stated, the questions which are presented by Lear, and which violate one or more of the foregoing rules, are as follows:

1. Whether the doctrine that a licensee is estopped to contest the validity of his licensor's patent, absent any misuse of the patent, is contrary to the Federal patent statutes.

(This question was raised for the first time in the within petition. Prior thereto, Lear expressly abandoned this issue in the District Court of Appeal and the California Supreme Court by stating (E-1): "It is a recognized principle of law that when a license agreement provides a grant of a right to either manufacture, use or sell a product incorporating a patented invention, the licensee is estopped to contest the validity of the licensed patent only as long as the licensee is operating the license. . . . This estoppel lasts only so long as the licensee operates under the license agreement. This estoppel arises not because of express terms in the agreement but because the licensee is using and enjoying the benefit and protection of the rights covered by the agreement and should not be permitted to reap the benefits of the agreement and at the same time contest the validity of the patents to show failure of consideration for the agreement.")

2. Whether the doctrine that a licensee is estopped to contest the validity of his licensor's patent is contrary to the Sherman Act where the license agreement provides that the licensee must pay royalties where he manufactures devices covered by the patent.

(This issue was raised for the first time in Lear's Petition for Rehearing in the California Supreme Court, which was denied without a hearing. In that petition Lear stated only that the Court's construction of the license agreement violated "Federal law, the common law and California law" (p. 10), without any express mention of the Sherman Act. Although Lear urges that it could not

have anticipated that Court's ruling that the purpose of the paragraph 2(a) termination clause was to permit Lear to terminate the license agreement and thereby avoid paragraph 3(g) minimum annual royalties in the event Lear ceased manufacture and sale of covered gyroscopes, the precise construction adopted by that Court was urged by Adkins in his Pretrial Statement of the Issues [C. T. p. 1417, lines 6-14] on October 23, 1963, again in his Trial Brief [C. T. pp. 2319-2322; F-1-3], again in two of his briefs in the District Court of Appeal (G-1-16), and again in his Petition for Hearing in the California Supreme Court (H-1-5). Lear's only argument in opposition was that it had effected a paragraph 2(a) termination under its construction of the license agreement (I-1-13).)

3. Whether a licensee may always repudiate and stand out from under the license agreement and then contest the validity of the patent on the theory that if the patent is invalid the consideration for the license agreement fails.

(Although this question was raised by Lear in one brief in the District Court of Appeal (I-1-26), it was raised only in passing and as a State and not as a Federal question. At D-161 Lear first refers to page 52 of its brief where the quoted matter on this question appears under the heading "The License Was Terminated on April 8, 1959 and Was of No Force or Effect After That Date" (I-1). Then Lear jumps to page 58 in an effort to show that it raised the issue as a Federal question. However, the remarks on that page

regarding "statutory patent rights" were under a different heading on page 57 entitled "No Protectible Property Rights Exist for Plaintiff Subsequent to Termination of the License Agreement Other Than His Rights Under the United States Patent Laws" (I-19). In that section Lear was not discussing repudiation, but, rather, the effect of *Sears, Roebuck & Co. v. Stiffel Co.* (1964), 376 U.S. 225, on a State theory of unjust enrichment under *Seagren v. Smith* (1944), 63 Cal. App. 2d 733, after termination of the license agreement. In this regard, see Rule 15(a) (J-1) of the California Rules on Appeal, which provides that although "technical 'assignments of errors'" are not required, "[e]ach point in a brief shall appear separately under an appropriate heading, with subheadings if desired.")⁴

4. Whether the doctrine that a licensee is estopped to contest the validity of his licensor's patent is any different where the license is initially under a patent application and then shifts to a license under the claims of the issued patent.

(In the District Court of Appeal, Lear argued that it was "the law of California" (D-164) that where the license begins under an application, the licensee is free to contest the validity of the issued claims. In the within petition Lear asserts for the first time that this is a Federal question.)

⁴In many of the references Lear makes to the record and to its many briefs in the California courts, Lear employs the same device of improperly connecting statements from arguments on different and unrelated questions in an effort to show that the questions here presented were timely and properly raised. Unfortunately, space considerations do not permit Adkins to expose every such instance.

5. Whether the license agreement violates either the patent laws or the Sherman Act by requiring the licensee to pay royalties during the pendency of the patent application.

(This issue was first raised in the within petition. In the trial court [R. T. p. 1017, lines 1-5; p. 1019, line 19, to p. 1020, line 1], the District Court of Appeal (K-1-3) and the California Supreme Court, Lear argued only that under its construction of paragraph 6 of the license agreement, it could unilaterally anticipate final Patent Office action, determine (even if incorrect) that no claims covering the gyros in issue could issue, and terminate the license agreement.)

6. Whether Adkins inserted any new matter in the specifications, and, if so, whether or not this constitutes fraud on the Patent Office precluding recovery, in a State court, of royalties due under a license agreement.

7. Whether the California Supreme Court, after properly stating the doctrine of file wrapper estoppel, correctly applied it to the facts in this case.

Statement of the Case.

Lear has not fairly or accurately set forth the material facts and has substantially misconstrued the opinions of the trial court, the California District Court of Appeal and the California Supreme Court. As a consequence, Adkins is required to restate the material facts and the true holding of the opinions below in order to properly present this case.

At page 5 of its petition Lear states, without citation to the record, as required in *Furness, Withy &*

Co. v. Yang-Tse Ins. Ass'n. (1917), 242 U.S. 430, 434, that Adkins "left the Air Force and went to work for Lear." Unfortunately, the record does not show the exact date that Adkins left the Air Force, but, as Lear well knows (from pages 103 and 116 of Adkins' deposition) (L-1-2), Adkins left the Air Force in April of 1951 and accepted employment with the Schwein Engineering Company, where he remained until early December of 1951. Then, on December 29, 1951, Adkins and Lear entered into a simple one-page letter agreement which provided, in substance [C. T. p. B-7, M-1], that Adkins agreed to disclose and license to Lear all "ideas, discoveries and inventions" relating to gyros and Lear agreed to pay Adkins therefor a "mutually satisfactory royalty." On January 2, 1952 [R. T. p. 291, lines 14-16] Adkins began work at Lear's Santa Monica, California, facility known as the Lear-Cal Division [R. T. p. 298, lines 10-13], and began conducting experiments in the hope of developing a gyro of greater accuracy which could be manufactured at lower cost [R. T. p. 2444, lines 5-12; p. 2141, line 22, to p. 2142, line 6]. After first experimenting with [R. T. p. 2456, lines 2-19] and ultimately rejecting self-aligning bearings [R. T. p. 2456, line 1; p. 2458, line 8], Adkins conceived of his invention relating to a fixed bearing construction in approximately August of 1952 [R. T. p. 306, lines 9-12] and built it into a gyro first called the "MA-1 compass gyro" [Ex. 8] and later renumbered by Lear as the 2156 gyro [R. T. p. 312, lines 13-26]. Adkins immediately disclosed his invention to Lear's executive and engineering personnel in California and Grand Rapids, Michigan, both orally and in writing [R. T. p. 307, lines 6-10; p. 2466, lines 24-26; p. 2136, line 13;

p. 2140, line 3; p. 580, lines 5-13; p. 2468, lines 14-21]. After Adkins' disclosure and in September of 1952 [R. T. p. 1763, line 17, to p. 1764, line 11], Lear's Grand Rapids division began experimenting with self-aligning bearings [R. T. p. 1769, lines 1-15], despite Adkins' advice that this approach was unworkable. In the early fall of 1953 [R. T. p. 1731, line 1, p. 1776, lines 13-17], the Grand Rapids division finally agreed with Adkins, and on October 23, 1953 [R. T. p. 1773, lines 21-26] adopted Adkins' invention and began to use it, first in the 2152 and 2153 gyros [R. T. p. 1731, lines 17-23; p. 2148, line 25, to p. 2149, line 5] and later in the 2151 and 2171 gyros [Ex. 49]. Thus, although Lear claims that it independently developed the "steel gyros," the facts do not support this assertion. The 2151, 2152, 2153 and 2171 gyros became known as "steel gyros" [R. T. p. 2153, line 6, to p. 2156, line 20]. The 2156 gyro, although also made of steel [R. T. p. 2153, lines 6-10], continued to be referred to as the MA-1 gyro or the 2156 gyro. The only difference in the bearing construction between the 2156 gyro and the four steel gyros was the shape of two co-operating elements [R. T. p. 612, lines 17-19]. The difference in shape, however, made no functional difference whatsoever, either in assembling the gyros or in their operation or accuracy [R. T. p. 1783, lines 4-14; p. 614, line 25, to p. 616, line 10; p. 2174, lines 5-9]. Adkins' invention reduced free drift errors from more than 17° per hour on Lear's most accurate gyro [R. T. p. 290, lines 8-11; p. 308, lines 10-13; p. 2545, lines 17-21; p. 2546, lines 19-24] to less than 2°

⁵Since Lear does not state "independent development" to be one of the questions presented and does not discuss it in its argument, Adkins will not further consider it, Rule 23-1-(c).

per hour [R. T. p. 290, lines 5-11; p. 2546, lines 1-24], and in addition substantially reduced the cost of manufacture by eliminating the need for skilled workmen and reducing the number of rejects [R. T. p. 2151, lines 15-20; p. 2179, lines 6-25; p. 2544, lines 12-21]. Furthermore, Adkins' invention permitted the bearings to be easily removed and replaced without requiring realignment of all of the parts [R. T. p. 2401, line 25, to p. 2402, line 6].

In September of 1952, soon after Adkins disclosed his invention to Lear, Lear began negotiations to supplement and implement the letter agreement of December 29, 1951 [R. T. p. 2184, lines 16-24]. These negotiations extended through several preliminary drafts of an agreement and culminated on September 15, 1955, when the parties executed the formal license agreement here in issue (C-125).

Under paragraphs 1(b), 2(a) and 6 (C-128, 129, 138) of the license agreement, Lear licensed (1) the original claims of the application, if patentable (even though, as Lear knew, all claims had then been rejected and amended claims were pending), and (2) any patent (and therefore necessarily its claims) which issued to Adkins for the invention disclosed or intended to be disclosed in the specifications, if the issued claims were "substantial claims." In paragraph 17 (C-146), Lear "agreed" that Adkins' invention was embodied in the 2152 and 2153 steel gyros and the 2156 gyro and that these gyros were covered by the claims of Adkins' patent application. Pursuant to paragraph 3(a) (C-131), Lear agreed to pay Adkins a royalty of $1\frac{1}{4}\%$ of the "net sales price" of all gyro products incorporat-

ing Adkins' invention. Paragraph 2(a) stated that Lear could "terminate any one or more of the [three] licenses herein granted" (not the license agreement itself) on 90 days' written notice to Adkins. Paragraph 3(g) contained no termination clause permitting Lear to terminate any of the licenses, and required Lear to pay substantial annual minimum royalties to Adkins "provided the licenses are in force and effect." Paragraph 6 stated that Lear could terminate the license agreement if the Patent Office refused to issue a patent containing "substantial claims."

After paying royalties to Adkins on all of the 2151, 2152, 2153 and 2156 gyro products [Ex. 35, R. T. p. 504, lines 10-25], Lear advised Adkins in writing on September 10, 1957 [Ex. 36] that in its unilateral opinion (which proved to be incorrect when Adkins' patent issued on January 5, 1960), it did not consider the bearing construction employed in the steel gyros to be patentable and refused to pay any further royalties to Adkins on any steel gyro. Adkins took positive exception in writing [Ex. 37], and when Lear persisted in its refusal to pay royalties, Adkins resigned on December 26, 1957, effective February 1, 1958 [Ex. 38]. Under the last unnumbered paragraph of paragraph 11 (C-144) of the license agreement, the license would become non-exclusive six months and fifteen days after Adkins left Lear's employ, unless Lear notified Adkins in writing that it exercised one of the four exclusive license options of that paragraph. It is not disputed that no such notice was ever sent, and thus the license became non-exclusive on August 15, 1968. Thereafter, and on April 8, 1959, Lear advised Adkins in writing that it purported to terminate

the licenses and the license agreement under paragraphs 2(a) and 6 thereof (C-150). Adkins again objected in writing (C-151).

On January 5, 1960 Adkins' patent issued [Ex. 10] and on the same day the within action was filed [C. T. p. B-1]. By stipulation, the period of damages included from January 1, 1955 to May 31, 1963 [R. T. p. A-1748, line 19, to p. A-1749, line 26]. Lear also stipulated that both before and after its letters of September 10, 1957 and April 8, 1959, it continued without interruption to manufacture the gyros in issue [C. T. pp. 1134-1135]. During the stipulated damages period, Lear's sales totalled \$67,576,755.00 [Ex. 48, 49]. Although Lear asserts in its petition that substantially all of its sales were to the military, no support for this statement can be found in the record. While it is not denied that some part of Lear's total sales was made to the military, the record does not show whether the percentage of sales to the military was 1% or 99% of the total sales, as the trial court, on Lear's motion [C. T. p. 33, lines 16-19, R. T. p. A-15, lines 1-26], ordered that the names of Lear's customers be withheld from Adkins [C. T. p. B-35, lines 23-24] on the ground that they were trade secrets. Thus, in answering Adkins' interrogatories and setting forth sales information, Lear gave each purchaser a "customer code" number. These numbers are 1 to 54, indicating that Lear had 54 different customers. It is hardly likely that all 54 are the military.

Between the dates of March 13, 1964 [R. T. p. 270, line 15] and May 4, 1964 [C. T. p. 1724] the matter was tried before a jury. Under proper instructions [R. T. pp. 3147-3149, 3154-3160, 3164, 3150-3152, 3143-3147, 3159-3160, 3161, 3163], the jury unanimously found that Adkins' patent was valid and that it was infringed by Lear. The verdict for Adkins in the amount of \$904,474.49 exactly equaled the agreed royalty of $1\frac{1}{4}\%$ together with accrued interest to May 31, 1963 [R. T. p. 886, line 7]. The issue of validity was presented to the jury after the trial court had ruled during the trial [R. T. p. 865, lines 8-24; p. 867, lines 10-15] (not prior to trial, as Lear states) that Lear had terminated the license agreement on April 8, 1959 under paragraph 2(a) but would continue to be liable for the contractual royalty if it continued to manufacture gyros covered by Adkins' patent [R. T. p. 865, lines 12-24]. The trial court then freed Lear from the rule of estoppel to question validity for the steel gyros only [R. T. p. 2067, line 26, to p. 2068, line 3; p. 2517, line 16]. With respect to the 2156 gyros, the trial court enforced the rule of estoppel and directed a verdict for Adkins [R. T. p. 2705, line 25, to p. 2706, line 2].

After the verdict in Adkins' favor, the trial court granted judgment n.o.v. for Lear for the steel gyros only on the sole ground that Adkins' patent was invalid for lack of novelty (A-94-102). Although the trial court undertook to decide the issue of infringe-

ment, it stated only that an invalid patent cannot be infringed (A-101-102). Both parties appealed to the District Court of Appeal.

The District Court of Appeal⁶ did not consider paragraph 2(a) of the license agreement. Instead, that Court held that Lear had effected a termination on April 8, 1959 under paragraph 6, based on the erroneous conclusion that the third rejection of claims by the Patent Office constituted final Patent Office action (A-69), even though not so designated (see Rule 1.113 of the Rules of Practice of the Patent Office (N-1)) and even though a patent thereafter issued to Adkins on his application covering the same invention [Ex. 10]. The District Court of Appeal then went on to ~~hold~~ that prior to termination of the license agreement, Lear was liable for royalties under the license agreement and estopped to question both validity and infringement (A-76-81), and remanded the case to the trial court for the sole purpose of determining the amount of damages which had accrued prior to April 8, 1959 (A-90-91). For the period after that date, the Court concluded that the State court had no further jurisdiction (A-74, 86-88). Although both parties petitioned for a rehearing in the District Court of Appeal, which resulted in a modification of opinion recognizing that

⁶After a hearing has been granted in the California Supreme Court, the opinion of the District Court of Appeal becomes a nullity and of no force or effect just as if the opinion had never been written, *Ponce v. Marr* (1956), 47 Cal. 2d 159, 161.

when Lear purported to terminate the license agreement it was non-exclusive (A-92), only Adkins petitioned for a hearing in the California Supreme Court, which was granted.

The California Supreme Court construed the license agreement in accord with the position taken by Adkins in his Pretrial Statement, in his Trial Brief, in his briefs in the District Court of Appeal and in his Petition for Hearing. In so doing, the California Supreme Court correctly held that the purpose of the paragraph 2(a) termination clause was to permit Lear to avoid the annual minimum royalty payments required by paragraph 3(g) in the event Lear ceased manufacturing and selling covered gyros (A-23-27). Based on the stipulation that Lear continuously and without interruption manufactured those gyros, that Court held that Lear had not effected a paragraph 2(a) termination of the license agreement (A-28). With respect to the paragraph 6 termination clause, that Court correctly held that Lear could not unilaterally and incorrectly anticipate final Patent Office action, and construed that paragraph to permit Lear to terminate only in the event that the Patent Office, in final Patent Office action, refused to issue a patent containing claims covering the gyros in issue (A-20). Thus, the California Supreme Court concluded that Lear had not effected a paragraph 2(a) or a paragraph 6 termination on April 8, 1959. That Court then held that if the gyros in issue in-

fringed the claims of Adkins' patent under the Federal test for infringement (A-29), Lear continued to be in breach of contract by reason of its refusal to pay royalties. The Court then held that under the settled doctrine, Lear was estopped to question the validity of Adkins' patent (A-28), and directed its attention to the issued claims. On this issue, the Court held (a) that Adkins had not added new matter to his application (A-5, 6, 33-38); (b) that the doctrine of file wrapper estoppel was inapplicable (A-29, 33); (c) that under the uncontradicted evidence Lear was not building the five gyros in issue according to the prior art patents, considered singly or collectively, together with ordinary mechanical skill (A-29, 36-38); and (d) that the issued claims covered all five gyros by their literal language (A-33), as well as under the doctrine of equivalents (A-35-36). Thus, the Court reversed the judgment n.o.v. (and also the new trial) and reinstated the jury verdict and the judgment thereon (A-51).

ARGUMENT.

Lear Has Failed to Raise Any Substantial or Important Question of Federal Law.

1. The Doctrine That During the Existence of a License Agreement a Licensee Is Estopped to Question the Validity of His Licensor's Patent Does Not Conflict With the Patent Laws.

The doctrine of licensee estoppel was approved and applied by the United States Supreme Court in *Automatic Radio Mfg. Co. v. Hazeltine Research* (1950), 339 U.S. 827; *Westinghouse Co. v. Formica Co.* (1924), 266 U.S. 342; *United States v. Harvey Steel Co.* (1905), 196 U.S. 310; *Dale Tile Manufacturing Co. v. Hyatt* (1888), 125 U.S. 46, and *Kinsman v. Parkhurst* (1855), 18 HOW 289, 59 U.S. 289.

In the case of *Automatic Radio Mfg. Co. v. Hazeltine Research* (1950), 339 U.S. 827, this Court, after first finding no misuse of the patent, again held that a licensee is estopped to question the validity of his licensor's patent and said, at page 836: "The general rule is that the licensee under a patent license agreement may not challenge the validity of the licensed patent in a suit for royalties due under the contract."

Thus, contrary to Lear's assertion, this Court has consistently approved the doctrine of licensee estoppel and recognized that it does not conflict with the patent laws.

2. The California Supreme Court's Construction of the Paragraph 2(a) Termination Clause of the License Agreement Does Not, as a Matter of Law, Render That Clause an Illegal Restraint of Trade Under the Sherman Act.

In its opinion, the California Supreme Court held that the purpose of the right of termination set forth in paragraph 2(a) of the license agreement was to save Lear the minimum annual royalty payments stipulated in paragraph 3(g) of the license agreement in the event Lear no longer desired to manufacture and sell any of the gyros covered by that agreement, and that consequently, Lear could not terminate the license pursuant to paragraph 2(a) while continuously manufacturing and selling gyros covered by that license. As the Court correctly pointed out, Lear stipulated that both before and after its purported termination of the license agreement under paragraph 2(a), it manufactured and sold, without interruption, the gyros which were covered by the license agreement. The interpretation of a patent license agreement is obviously a pure question of State and not Federal law, *Dale Tile Manufacturing Co. v. Hyatt* (1888), 125 U.S. 46. Once construed by the State court, the only possible Federal issue is whether the agreement restrains trade in violation of the Sherman Act (15 USC §1 *et seq.*).

Despite complete knowledge that Adkins urged from the outset the precise construction adopted by the California Supreme Court, Lear, for the first time, in its Petition for Rehearing in the California Supreme Court (which was denied without a hearing) (A-52) and now again in its Petition for Writ of Certiorari, argues that the California Supreme

Court holds that it must cease manufacture to terminate the license agreement and that this is an unreasonable restraint of trade under the Sherman Act unless the patent is valid.

Before considering Lear's argument and the cases it cites, it seems clear that the obvious answer is that the Court's construction of the paragraph 2(a) termination clause does not in any way *restrain* or *prohibit* Lear from either manufacturing or selling gyros containing Adkins' invention, but only requires Lear to pay the agreed royalty if it does so. This is not only the basic purpose of all license agreements, but also a legitimate and lawful purpose of every license agreement which clearly does not constitute a violation of the Sherman Act.

Lear places principal reliance on *Sola Electric Co. v. Jefferson Electric Co.* (1942), 317 U.S. 173; *Katzinger Co. v. Chicago Metallic Mfg. Co.* (1947), 329 U.S. 394; *MacGregor v. Westinghouse Electric & Mfg. Co.* (1947), 329 U.S. 402, and *United States v. United States Gypsum Co.* (1947), 333 U.S. 364, for its assertion that the Court's construction of paragraph 2(a) results in an unlawful restraint of trade under the Sherman Act. All four cases, however, are price fixing cases where the patent license agreement contained a price fixing clause whereby the licensor fixed the licensee's sales price, and are therefore not even remotely in point. There is no price fixing clause in the Adkins-Lear license agreement, and there is not even a scintilla of evidence in the voluminous record, and Lear points to none, which even suggests that Adkins used his patent either to fix prices or, for that matter, in any other manner

which violates the Sherman Act. In short, Adkins never used his patent right to extract any additional benefit from Lear. Rather, Lear used the license agreement to avoid its broader obligation under the agreement of December 29, 1951.

As this Court held in *Automatic Radio Mfg. Co. v. Hazeltine Research* (1950), 339 U.S. 827, at 836, where there is no "price fixing" or other "misuse of patents," the doctrine of "[t]he *Katzinger* and *MacGregor* cases [is] inapplicable," and a licensee is indeed estopped to question the validity of his licensor's patent. This case provides a complete answer to Lear's argument, in that it holds that in order to avoid the doctrine of licensee estoppel, Lear must *first* show that the license agreement constitutes an unlawful restraint of trade or a misuse of the patent—a preliminary issue which Lear has wholly failed to show even exists in the case at bar. If a licensee were able to question the validity of his licensor's patent without *first* showing an unlawful restraint of trade or a misuse of the patent, every licensee could question the validity of his licensor's patent—which is not the law (Point 1, *supra*).

Lear's reliance upon the dissent of Mr. Justice Douglas and Mr. Justice Black in the *Automatic Radio* case, *supra*, is entirely misplaced. In that dissent it was not urged, as Lear asserts, that the licensee estoppel doctrine be totally abolished. Rather, as the dissenting opinion makes clear, Mr. Justices Black and Douglas were of the opinion that block licensing of 570 patents and 200 applications, under the facts there presented, constituted an illegal extension of the patent monopoly by exacting royalties

on the entire finished product, irrespective of whether it was covered by the patents and patent applications, and that the doctrine of the *Sola*, *Katzinger* and *MacGregor* cases should be applied to break up a "great pooling of patents," all of which are foisted upon a licensee who may wish to license only one patent. Lear's quotation from the dissenting opinion, at pages 24-25 of its petition, is wrenched out of context to make it appear that the dissent urged the total abolition of the doctrine of licensee estoppel.

Lear's reliance on Mr. Justice White's concurring opinion in *United States v. Singer Mfg. Co.* (1963), 374 U.S. 174, is equally misplaced. In that case Mr. Justice White went no further than to point out that the use of patents as part of a conspiracy to restrain trade and monopolize an industry (also condemned by the majority opinion) included an agreement among several manufacturers not to contest the validity of each other's patents, and that such a provision was therefore invalid upon analogy to the holding of the *Sola*, *Katzinger* and *MacGregor* cases, among others. At page 25 of its petition Lear again quotes out of context from a footnote in this concurring opinion in order to make it appear that Mr. Justice White was urging the complete abolition of the estoppel doctrine.

The remaining cases relied upon by Lear are similarly not in point, and, significantly, were all decided prior to the *Automatic Radio* case, *supra*. *Mercoind Corp. v. Mid-Continent Investment Co.* (1944), 320 U.S. 661, held only that assuming the patent is valid, it still cannot be used in a license agreement to protect unpatented material. The issue of licensee

estoppel was not even considered. *Pope Mfg. Co. v. Gormully* (1892), 144 U.S. 224, involved an agreement wherein the licensor licensed certain patents, fixed the licensee's sales price, prohibited the licensee from using other patents owned by the licensor, and forbade the licensee from contesting the validity of any of the licensor's patents. Although the Court considered whether the provision not to contest validity violated public policy, it did not decide that issue, and affirmed the judgment denying the licensor specific performance on the sole ground that the contract was unconscionable and oppressive. In *United States v. Masonite Corp.* (1942), 316 U.S. 265, the Court held that assuming, *arguendo*, Masonite's patents were valid, the "agency" agreement entered into between Masonite and others, each knowing the terms of the other's agreement, and whereunder Masonite fixed the "agent's" sales price, constituted a conspiracy to fix prices in violation of the Sherman Act. Again, the doctrine of licensee estoppel was not even considered. In *Nachman Spring-Filled Corporation v. Kay Mfg. Co.* (1943; Cir. 2), 139 F. 2d 781, the plaintiff, in a prior suit, recovered judgment for infringement of two patents. In an agreement settling that litigation, the defendant agreed not to manufacture or sell any devices which would infringe a third patent owned by the plaintiff, and further agreed to discontinue its manufacture thereunder for the 13-year unexpired term of that third patent. Construed most favorably to Lear, the Second Circuit held (after noting that a licensor-licensee situation might be different) that if the agreement was an illegal restraint of trade under the Sherman Act (which the Court did not decide), then only the va-

lidity of the patent could save the agreement, and therefore the defendant could question the validity of the patent. Obviously, there is a material distinction between an agreement not to manufacture or sell devices covered by a patent and a license agreement to pay a royalty if the defendant does manufacture and sell devices covered by the patent. The former is a restraint, the latter is not.

In the case at bar, Lear is free to manufacture or not manufacture gyros containing Adkins' invention as it sees fit. All the California Supreme Court holds is that Lear must pay royalties under the license agreement if it manufactures gyros containing Adkins' invention. As this Court said in the case of *Automatic Radio Mfg. Co. v. Hazeltine Research* (1950), 339 U.S. 827, "Petitioner may not complain because it must pay royalties whether it uses Hazeltine's invention or not." *A fortiori*, Lear cannot complain because it must pay Adkins' royalties where Lear uses Adkins' invention.

3. As a Matter of State Law, Lear May Not Repudiate and Stand Out From Under the License Agreement and Then Assert a Total Failure of Consideration Because the Patent Is Allegedly Invalid.

Lear cites several cases (*Bucky v. Sebo* (1953, Cir. 2), 208 F. 2d 304; *Holmes, Booth & Haydens v. McGill* (1901, Cir. 2), 108 Fed. 238; *Mudgett v. Thomas* (1893, C. C., Ohio), 55 Fed. 645; *Brown v. Lapham* (1886, C.C., N.Y.), 27 Fed. 77, and *Crew v. Flanagan* (1954), 65 N.W. 2d 878) for the proposition that an *exclusive* licensee may repudiate and stand out from under the license agreement and is then freed from the estoppel doctrine in order to

show that there is a total failure of consideration because the patent is invalid. As Lear states, there are cases to the contrary (*St. Paul Plow Works v. Starling* (1891), 140 U.S. 184; *Eastern States Petroleum Co. v. Universal Oil Co.* (1938), 22 Del. Ch., 2 A. 2d 138) which apply the opposite and better rule.

In *Bowers Mfg. Co. v. All-Steel Equipment, Inc.* (1960, Cir. 9), 275 F. 2d 809, the Ninth Circuit held, as matter of State contract law, that the licensee's procedural maneuver of purporting to repudiate the agreement in an attempt to thereby avoid the doctrine of estoppel to question the validity of his licensor's patent was unavailing and logically should not avoid the doctrine of estoppel. The court said, at page 812: "It is difficult to see why a procedural technicality such as this should create substantive rights in the licensee." If a licensee, by the mere device of "repudiating" the agreement, could free himself from the doctrine of estoppel to question the validity of the patent, the result would be the total abolition of the doctrine which has been approved and applied consistently by this Court.

In this Court, the complete answer to the question of whether or not a licensee may repudiate and stand out from under the agreement and then urge failure of consideration on the ground of the alleged invalidity of the patent is that the question is purely one of State law relating to the construction of and the consideration for contracts and not Federal law, *Dale Tile Manufacturing Co. v. Hyatt* (1888), 125 U.S. 46; *American Railway Express Co. v. Kentucky* (1927), 273 U.S. 269; *Automatic Radio Mfg. Co. v. Hazeltine*

Research (1949, Cir. 1), 176 F. 2d 799; *Scott v. Platt* (1943), 171 Ore. 379, 137 P. 2d 975. Thus, in the three Federal cases cited by Lear, either State law or Federal cases which may be traced to State cases applying State law were relied upon. In none of these cases did the Court purport to apply Federal law. This Court will not review a conflict between the different States on a question of purely State law relating to consideration for contracts, *Ruhlin v. New York Life Ins. Co.* (1938), 304 U.S. 202, 206.

In the case at bar, the California Supreme Court held that Lear had not repudiated the license agreement and could not do so (citing *Thompson Spot Welder Co. v. Oldberg Mfg. Co.* (1932), 256 Mich. 447, 240 N.W. 93), because the license agreement expressly covers, in paragraph 6, Lear's right to terminate in the event the patent is held invalid. As this Court held in *United States v. Harvey Steel Co.* (1906), 196 U.S. 310, a licensee who is a member of an industry where licensing of patents is commonplace is presumed to contract with reference to the rule prohibiting a licensee from questioning the validity of his licensor's patent, and construed a similar provision to refer only to third party adjudication and not as an authorization to the licensee to attack his licensor's patent. Since the doctrine of licensee estoppel has been approved and applied by this Court, the California Supreme Court's decision on this issue does not conflict with any Federal statute.

Moreover, the "repudiation" theory urged by Lear was considered and rejected by this Court in *St. Paul Plow Works v. Starling* (1896), 140 U.S.

185. In that case the Court held that an exclusive licensee cannot "repudiate" the license and avoid the estoppel doctrine while continuing to manufacture devices covered by the patent, and that if the licensee purported to do so, the licensor could, at his election, sue on the contract for royalties or terminate the contract and sue for infringement and statutory damages. Thus, if the issue were one of Federal law, it has been decided adversely to Lear.

Invalidity of a patent is not, *ipso facto*, a defense to a suit for royalties under a license agreement. Under all of the cases, invalidity would be a defense only if it results in a complete failure of consideration, in which event failure of consideration and not invalidity is the defense. In the case at bar, under the last unnumbered paragraph of paragraph 11 of the license agreement, Lear's license of Adkins' invention became, *at Lear's election*, non-exclusive on August 15, 1958, before Lear purported to terminate the license and license agreement on April 8, 1959. In *Bowers Mfg. Co. v. All-Steel Equipment, Inc.* (1960, Cir. 9), 275 F. 2d 809, the court distinguished between an exclusive and a non-exclusive license and concluded that where the license is non-exclusive, the licensee bargains for freedom from suit and not for the monopoly of the patent, from which he can be evicted, and that consequently, invalidity cannot constitute a failure of consideration. Accord, *Automatic Radio Mfg. Co. v. Hazeltine Research* (1949, Cir. 1), 176 F. 2d 799. Thus, Lear, as a non-exclusive licensee, is estopped to question the validity of Adkins' patent, since invalidity cannot result in a total failure of consideration.

Even if patent invalidity in a non-exclusive license situation did result in a total failure of consideration, this defense would still be unavailing to Lear in this action because the license agreement recites as other non-severable consideration (1) the license under the patent application, (2) the cancellation and superseding of the first agreement of December 29, 1951, and (3) the concurrent employment of Adkins under Lear's "standard" employment agreements. In this regard, it has long been the rule that a partial failure of non-severable consideration does not excuse the defendant's performance, *United States v. Harvey Steel Co.* (1906), 196 U.S. 310; *Patterson Ballagh Corp. v. Byron Jackson Co.* (1944, Cir. 9), 145 F. 2d 786; *Del Riccio v. Photochart* (1954), 124 Cal. App. 2d 301.

Finally, Lear did not purport to repudiate and stand out from under the license agreement, but, to the contrary, purported to terminate the license agreement pursuant to paragraphs 2(a) and 6—which the California Supreme Court, as a matter of contractual construction, held it had no right to do.

4. **The Doctrine of Licensee Estoppel Is No Different Where the License Is Initially Under a Patent Application and Then Automatically Shifts to a License Under the Claims of the Issued Patent, Especially Where the Issued Claims Cover the Invention of the Application and the Invention of the License Agreement.**

In the case at bar, Lear took a license of the original claims of the application, if patentable (even though Lear knew that all of those claims had been rejected by the Patent Office and that amended claims were pending), which, by the agreement,

shifted to a license under the claims of the issued patent upon issuance if the claims were "substantial claims." It was "agreed" that the invention was disclosed in the application, covered by its claims and embodied in the 2152, 2153 and 2156 gyros. In construing the license agreement, the California Supreme Court held that Lear agreed to pay Adkins the stipulated royalty until final Patent Office action, and that if a patent issued with claims covering the invention embodied in those gyros, Lear agreed to continue to pay the stipulated royalty. As the California Supreme Court further held, "the patented apparatus falls within the scope of the initial application, and because Lear has adapted it to its steel gyros, we must conclude that the patented apparatus was within the contemplation of the parties." Thus, Lear received precisely what it bargained for and agreed to pay for. As a result, Lear's argument that the rule should be different because the licensor can expand his claims to cover something different than the invention the licensee intended to license is not in point, as Adkins did not expand his claims to cover a different invention but obtained claims which covered the invention of the application, the invention of the license agreement and the invention Lear continuously used in all five gyros in issue.

Baldwin Rubber Co. v. Payne & Williams Co. (1939, Cir. 6), 107 F. 2d 350, and *Stubnitz-Greene Spring Corp. v. Fort Pitt Bedding Co.* (1940, Cir.

6), 110 F. 2d 192, both cited by Lear, afford the complete answer, in that the rule of licensee estoppel is not and should not be any different depending on whether the license originates under the application or under the patent, since the licensee can show (1) that the claims do not cover the invention of the contract and/or (2) that he is building his device solely according to the teachings of the prior art. Consequently, although this Court did not find it necessary to decide this issue, in *Westinghouse Co. v. Formica Co.* (1942), 266 U.S. 342, the issue was thereafter properly decided by the Federal courts.

When Lear argues throughout its petition that it should be permitted to contest the "patentability of the claims" of the application, it is really only advancing its argument that under its construction of paragraph 6 of the license agreement, it could unilaterally and incorrectly anticipate final Patent Office action, determine that no claims could issue, and terminate the license agreement. On this issue the California Supreme Court, in construing the license agreement, held that Lear could not do so, and further held that if a patent issued with claims covering the invention of the application and the invention of the agreement, Lear continued to be liable for royalties on gyros it thereafter manufactured which incorporated Adkin's invention. That Court's decision on this State issue is obviously correct.

5. **The License Agreement Does Not Violate Either the Patent Laws or the Sherman Act by Requiring Lear to Pay Royalties During the Pendency of the Patent Application.**

Lear now argues for the first time, in the within petition, that the license agreement antedates the patent monopoly to include the original claims of the application because Lear is required to pay royalties under the license of the claims of the application. Lear constructs this argument on the rule that a patent applicant has no property right under an application (citing *Marsh v. Nichols, Shepard & Co.* (1888), 128 U.S. 605), and asserts that where a licensee must pay royalties under a license of the claims of the application, this is analogous to the case of *Brulotte v. Thys Co.* (1964), 379 U.S. 29. However, in that case this Court held only that a licensor cannot extend the monopoly of the patent by exacting royalties *after* the patent has expired. Lear's argument is patently erroneous, as an agreement founded upon the disclosure of an invention is solely a matter of contract governed by State and not Federal law which neither grants a property right in the claims of the application nor antedates the patent monopoly for the period prior to the issuance of a patent, *Hamilton v. Park McKay Co.* (1897), 112 Mich. 138, 70 N.W. 436. No Federal statute is violated where a manufacturer agrees to pay a royalty for the disclosure of an idea, discovery or invention, and it follows that a manufacturer may so agree for an invention which is described in a pending patent application. *Hamilton v. Park McKay Co., supra, Automatic Radio Mfg. Co. v. Hazeltine Research* (1950), 339 U.S. 827.

6. The California Supreme Court Held That the Issued Claims Were Within the Scope of the Original Specifications. Thus, the Addition of Any New Language Is Irrelevant. In Addition, the Patent Office Was Fully Apprised of the Amendment.

Without even mentioning what it claims to be new matter, or why it deems it to be new matter, Lear accuses the California Supreme Court of failing to consider whether or not Adkins inserted new matter in his application and whether this constitutes fraud on the Patent Office. In this regard, that Court was careful to point out that the applicant "may not enlarge the disclosure of the application as initially filed by adding new matter" (A-5-6), and that the issuance of a patent "means that the Patent Office did not consider the amendment to constitute new matter in violation of the patent laws, and its determination in this regard is entitled to special weight" (A-6). The Court then went on to hold that Adkins did not in fact add new matter, as "the patented apparatus falls within the scope of the initial application. . ." (A-34). Based on the record, the Court's conclusion is manifestly correct. Thus, the Court's statement in footnote 35 (A-46) that it is unnecessary to consider this issue, upon which Lear relies, is only an alternative holding after the Court in fact decided the issue in Adkins' favor.

The precise issue was whether or not new language broadened the invention or merely described in different words what was initially disclosed and described by other terminology. Thus, the insertion of alleged new matter in these circumstances cannot possibly constitute fraud on the Patent Office. Whatever language

is added to the specifications is not only disclosed but also presented to the Patent Office for consideration as to whether it constitutes new matter, and is a decision which rests entirely on the contents of the file wrapper.

Walker Process Equipment, Inc. v. Food Machinery & Chemical Corp. (1965), 382 U.S. 182, cited by Lear, is simply not in point, since in that case the court accepted as true the allegation that the patent had been obtained by an *intentional* fraudulent representation that the invention had not been in public use longer than the period permitted by the statute, and based thereon, held, in part, that since fraudulent procurement of this type may bar a suit for infringement, it may also be an element of a Sherman Act violation. *Precision Instrument Manufacturing Company v. Automotive Maintenance Machinery Company* (1945) 324 U.S. 806, also cited by Lear, is equally not in point, since in that case the fraud which was held to bar the suit was the patentee's *actual* knowledge that the alleged inventor was not the true inventor and that the alleged inventor had falsified his priority date.

The case at bar is not even remotely similar to either the *Walker* or the *Precision* case for the simple reason that, as a matter of law, no new matter was inserted in the specifications.

7. The California Supreme Court Properly Applied the Federal Doctrine of File Wrapper Estoppel.

In its opinion, the California Supreme Court stated that "claims which have been allowed cannot, under the doctrine of file wrapper estoppel, be held to cover what has previously been eliminated from the patent application in order to avoid a rejection"

(A-29), and went on to hold that "the record does not support" (A-33) Lear's contention that a file wrapper estoppel exists in the case at bar because "the accused apparatus falls within the literal language of the claim" (A-33), *Graver Tank & Mfg. Co. v. Linde Air Products Co.* (1950), 339 U.S. 605.

Lear's citation of *Schriber-Schroth Co. v. Cleveland Trust Co.* (1950), 311 U.S. 211, is not in point. In that case the patentee, to avoid a rejection, eliminated the "flexible web" as an element of his invention and obtained claims which did not have the "flexible web" as an element. The Court held only that under the doctrine of file wrapper estoppel the allowed claims cannot be construed to read in the cancelled "flexible web." The case of *McClain v. Ortmyer* (1891), 141 U.S. 419, holds only that the claims may be limited by the specifications but not expanded by the specifications, and is therefore also not in point.

Lear also argues that the California Supreme Court relied upon the cancelled method claims in construing the scope of the apparatus claims. However, the Court in its opinion was very careful in explaining that the mandrel "is used by Adkins only as an assembly tool" (A-9), and that the mandrel is not one of the elements called for by the claims of Adkins' patent (A-31, 33, 34). Thus, the Court's conclusion that "the accused apparatus falls within literal language of the claim, thus determining the issue of coverage" (A-33), equally disposes of this question.

In short, the California Supreme Court fully understood and properly applied the doctrine of file wrapper estoppel in the case at bar.

Conclusion.

For all of the foregoing reasons, it is respectfully submitted that Lear's Petition for Writ of Certiorari should be denied.

Respectfully submitted,

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May 3, 1968

